

Message Text

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PASS EXIMBANK

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SUBJ: FINANCING FOR SEGBA DISPATCH CENTER

1. LOCAL AGENTS OF TRW CONTROLS CORP. AND OFFICIALS OF SEGBA (SERVICIOS ELECTRICOS DEL GRAN BUENOS AIRES), THE GOA POWER COMPANY WHICH SERVICES BUENOS AIRES, HAVE BEEN IN TOUCH WITH THE EMBASSY IN SEARCH OF ASSISTANCE IN RESOLVING FINANCING PROBLEM FOR SUBJECT PROJECT. IN JUNE OF 1974, SEGBA AWARDED TO TRW A DISPATCH CENTER (ENERGY MANAGEMENT SYSTEM) PROJECT, THE FIRST OF ITS KIND IN ARGENTINA, VALUED AT APPROXIMATELY \$2.5 MILLION DOLLARS. WORK AND PLANNING FOR THIS PROJECT HAS APPARENTLY BEEN GONG ON FOR SOME MONTHS IN BOTH COMPANIES.

2. TRW'S PROBLEM STEMS FROM THE FACT THAT WITHOUT FIRST OBTAINING A PRELIMINARY COMMITMENT, TI MADE A FINANCING OFFER TO SEGBA IN WHICH TRW STATED THAT EXIMBANK FINANCING WOULD BE AVAILABLE ON THE TERMS WHICH WERE CURRENT IN THE PRE JULY 1974 PERIOD (I.E., EXIM LOAN OF 45 PERCENT OF COST OF U.S. EXPORTS, GUARANTEE ON COMMERCIAL BANK LOAN UP TO 45 PERCENT OF TOTAL, 1/2 PERCENT GUANTEE FEE, 7 PERCENT INTEREST, ECT.). SEGBA AND TRW AGREED SEGBA WOULD APPLY FOR CREDIT. UNFORTUNATELY, BY THE TIME SEGBA APPLIED FOR CREDIT, EXIM'S LENDING TERMS HAD CHANGED. A FURTHER COMPLICATION AROSE BECAUSE SEGBA DID NOT GET AROUND TO REQUESTING THE CREDIT UNTIL

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AFTER THEY HAD MADE AWARD TO TRW ON BASIS OF SEGBA'S

PRESUMPTION AND OF TRW'S ASSURENCE THAT "STANDARD" EXIMBANK FINANCING WOULD BE AVAILABLE. EXIMBANK ADVISED SEGBA ON SEPTEMBER 13, 1974 LETTER (CREDIT N.5573, AND GUARANTEE N-5574, ARGENTINA) AHTAT IT HAD AUTHORIZED CREDIT. EXMIBANK'S PC OFFERS TO FINANCE ONLY 30 PERCENT OF CONTACT PRICE AND TO GUARANTEE ONLY 30 PERCENT OF REMAINDER; ADDITIONALLY, INTEREST (8 PERCENT) AND GUARANTEE FEE (1 PERCENT) ARE HIGHER THAT EITHER TRW OR SEGBA ASSUMED WOULD BE THE CASE.

3. FOLLOWING RECEIPT OF EXIMBANK PC, SEGBA OFFICIALS COMPLAINED TO TRW. THEY HAVE ADVIED TRW REPRESENTATIVES AND EMBASSY THAT UNLESS EXIMBANK CAN LOAN 45 PERCENT OF COST OF IMPORTED COMPONENTS, THEY MIGHT HAVE TO RESCIND CONTACT AND NEGOTIATE WITH TRW'S PRINCIPAL COMPETITOR IN THIS CONTEST, SIEMENS OF GERMANY. EMBASSY BELIEVES THAT SEGBA WOULD HAVE NO CHOICE BUT TO RE-EVALUATE OFFERS, AND TRW LIKELY TO LOSE CONTRACT ON THIS BASIS AS SIEMENS PRICE AND TECHNOLOGY ARE COMPARABLE TO TRW'S BUT INITIAL FINANCING OFFER, AT LEAST, WAS MORE GENEROUS. ACCORDING TO TRW AGENTS, SIEMENS' ORIGINAL OFFER SPECIFIED FINANCING OF 85 PERCENT OF THE CONTRACT COST AT 8 PERCENT OVER FIVE YEARS, INCLUDING ONE YEAR'S GRACE. THERE WERE NO GUARANTEE OR COMMITMENT FEES.

4. WE ARE CONCERNED ABOUT REAL POSSIBILITY OF LOSING THIS CONTRACT TO SIEMENS. POTENTIAL DAMAGE TO U.S. EXPORT INTEREST EXTENDS BEYOND THIS PARTICULAR JOB. SEGBA HAS PLANS FOR TWO ADDITIONAL DISPATCH CENTERS IN THE BUENOS AIRES AREA; AGUA Y ENERGIA ELECTRICA HAS PLANS FOR 8 OTHERS; AND EPC (EMPRESA PROVINCIAL DE ENERGIA DE CORDOBA) AND DEBA (DIRECCION DE ENERGIA DE BUENOS AIRES), TWO PROVINCIAL POWER COMPANIES, PLAN TWO MORE, FOR A TOTAL OF 13, OVER THE NEXT 5 YEARS. FIRM TO INSTALL FIRST DISPATCH CENTER IN ARGENTINA WILL HAVE EVIDENT ADVANTAGE IN CONTESTS FOR REMAINING 12, VALUED AT APPROXIMATELY \$30 MILLION DOLLARS WITH ANOTHER \$5 MILLION DOLLARS IN SPARES AND ADDITIONAL SOFTWARE DURING THE FOLLOWING 10 YEARS.

5. WE ARE TOLD THAT TRW HAS AGREED TO ABSORB THE INTEREST COST OF THE FINANCING ABOVE 8 PERCENT ON 90 PERCENT OF THE CONTRACT PRICE. IN TURN, THEY ASK WHETHER THE BANK MIGHT

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NOT BE PERSUADED TO INCREASE THE LOAN PORTION TO 45 PERCENT OF THE IMPORTED COST. IN THIS REAGARD, PRESUMABLY, IT WOULD BE RELEVANT TO DETERMINE WHAT TERMS SIEMENS COULD CURRENTLY OFFER. EMBASSY IS RELUCTANT TO RECOMMEND THAT EXIMBANK GRANT EXCEPTIONAL TREATMENT SIMPLY TO RESCUE A U.S. COMPANY FROM WHAT ARE, TO A CERTAIN EXTENT, THE CONSEQUENCES OF ITS OWN INEPTNESS IN PREPARING ITS TENDER. HOWEVER, SINCE A GOOD DEAL MORE POTENTIAL BUSINESS IS

INVOLVED WHICH TRW WOULD HAVE AN ADVANTAGE IN SECURING
IF IT SUCCESSFULLY COMPLETES THIS CONTRACT, WE WISH TO PUT
THE FACTS BEFORE EXIMBANK FOR ITS CONSIDERATION. ADDITIONALLY,
WE BELIEVE THAT COINCIDENCE IN THE TIMING OF EXIM'S
CHANGES IN TERMS AND THT BID CONTEST FOR THIS PROJECT HAS
BEEN AN IMPORTANT CONTRIBUTING FACTOR IN CREATING THIS
PROBLEM, AND THAT ON THIS BASIS SOME RELIEF TO ASSIST THE
U.S. EXPORTER IS JUSTIFIED.
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